


ANNUAL REPORT

SILKNIT LIMITED

AND SUBSIDIARY COMPANIES

for the fiscal year ended
DECEMBER 31, 1967



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See

INTERIM REPORT

SILKNIT LIMITED

AND SUBSIDIARY COMPANIES

for the six months ending

JUNE 30, 1967

SILKNIT LIMITED

TORONTO 2B, CANADA

August 15th, 1967

To the Shareholders of

SILKNIT LIMITED:

The Board of Directors of your Company submits below certain interim information with respect to the combined operations of the Company and its subsidiary Companies and of changes in the consolidated financial position for the six month period from January 1, 1967 to June 30, 1967.

Results of operations for the six month period ending June 30, 1967, compared with those for the first six months of 1966 were as follows—

	Six months ending June 30	
	1967	1966
Net Sales.....	\$4,766,425	\$5,162,178
Earnings before provision for income taxes.....	\$ 161,692	\$ 372,139
Provision for income taxes.....	39,900	136,200
Net earnings for the period.....	\$ 121,792	\$ 235,939

The decreases in net sales and earnings were due to the softening in the market for textile products which developed in the second half of 1966 and continued into 1967. Present indications are that some improvement in market conditions can be expected during the second half of the year.

Capital cost allowances to be claimed for income tax purposes in excess of the depreciation recorded in the accounts have reduced the provision for income taxes by \$15,000. The cumulative amount of such tax reductions to June 30, 1967 is \$176,000. The provision for income taxes has been further reduced by the offsetting of prior years' losses against the taxable income of a subsidiary company.

Your Company's share of the net earnings of its associated companies (50% owned) for the six months ending June 30, 1967 amounts to \$39,818. This has not been reflected in your Company's earnings.

Net current assets, or working capital, increased by \$100,156 during the six month period ending June 30, 1967 to an amount of \$3,360,564 at that date, as shown by the following Statement of Source and Application of Funds, with figures for the comparable period last year—

	Six months ending June 30	
	1967	1966
<u>SOURCE OF FUNDS:</u>		
Funds provided from operations—		
Net earnings.....	\$121,792	\$235,939
Provision for depreciation.....	113,036	111,035
	<hr/>	<hr/>
Disposal of fixed assets.....	\$234,828	\$346,974
Other (net).....	2,879	2,039
	<hr/>	<hr/>
	\$237,707	\$369,404
	<hr/>	<hr/>
<u>APPLICATION OF FUNDS:</u>		
Dividends—Common.....	\$ 42,000	\$ 42,000
Preferred.....	6,107	6,112
Cost of preferred shares purchased for cancel- lation.....	384	3,272
Additions to fixed assets.....	77,757	219,449
Other (net).....	11,303	—
	<hr/>	<hr/>
	\$137,551	\$270,833
	<hr/>	<hr/>
Resulting in an increase in working capital of.....	\$ 100,156	\$ 98,571
Working capital at beginning of year.....	3,260,408	3,324,070
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Working capital, June 30.....	\$3,360,564	\$3,422,641
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The financial statements provided in the text of this interim report have not been examined by the Company's auditors and are subject to year-end adjustments.

ON BEHALF OF THE BOARD,

H. B. EPSTEIN,
President.

SILKNIT LIMITED

TORONTO 2 B, CANADA

April 4th, 1968.

To the Shareholders of

SILKNIT LIMITED :

The Board of Directors of your Company submits herewith the consolidated financial statements of Silknit Limited and its subsidiary companies for the year ended December 31, 1967 together with the report of the auditors thereon.

The combined earnings of the companies, before provision for income taxes and before a dividend received from an associated company, amounted to \$529,991 in 1967, an increase of \$90,661 over the amount of \$439,330 earned in the previous year. As explained by Note 2 to the consolidated financial statements, capital cost allowances to be claimed for tax purposes in excess of the depreciation recorded in the accounts in 1967 and the utilization of losses carried forward from previous years by a subsidiary company have reduced the provision for income taxes to an amount of \$156,000; this compares with the 1966 provision of \$105,000. A dividend of \$25,000 was received in 1967 from an associated company (50% owned), so that net earnings, after provision for income taxes amounted to \$398,991 in 1967, an increase of \$64,661 over the net earnings of \$334,330 in 1966.

The increase in net earnings and in sales of your Company's products reflects the improvement in the market for textile products following a decline which extended over the last half of 1966 and the first half of 1967. This improvement in business is still being maintained; however, competition from imported textile products is always present and the pressure of such competition will probably accelerate as a result of the new decreases in tariffs and increasing labour costs. Although it is difficult at this time to foresee what the remainder of 1968 will bring, we are hopeful that satisfactory results of operation will be shown for the year.

Dividends aggregating 55 cents per share, including an extra dividend of 15 cents, were paid on the no par value Common Shares of the Company, and regular quarterly dividends at the rate of 5% per annum were paid on the \$40 par value Preferred Shares. During 1967, 20 of the \$40 par value Preferred Shares were purchased for cancellation at a cost of \$770.

Net current assets, or working capital, increased by \$313,540 during the year, as shown by the accompanying Statement of Source and Application of Funds, to an amount of \$3,573,948 at December 31, 1967.

Your Directors wish to record their appreciation of the loyal services rendered throughout the year by the officers and employees of the Company.

ON BEHALF OF THE BOARD,

H. B. EPSTEIN,

President.

PRICE WATERHOUSE & CO.

55 YONGE STREET

TORONTO 1

MARCH 22, 1968.

AUDITORS' REPORT

To the Shareholders of

SILKNIT LIMITED :

We have examined the consolidated balance sheet of Silknit Limited and subsidiary companies as at December 31, 1967 and the consolidated statements of earnings, earned surplus, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.

Chartered Accountants.

SILKNIT LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

	Year ended December 31	
	<u>1967</u>	<u>1966</u>
Net sales.....	\$10,052,339	\$9,976,023
<i>Deduct:</i>		
Cost of merchandise sold and all expenses, except the items shown below.....	9,138,174	9,151,599
Provision for depreciation.....	214,720	238,437
Interest on mortgage bonds.....	1,905	3,718
Remuneration of directors and senior officers (including \$75,766 paid to directors, \$79,642 in 1966).....	167,549	142,939
	<u>9,522,348</u>	<u>9,536,693</u>
Earnings before income taxes and dividend from associated company.....	529,991	439,330
Provision for income taxes (Note 2).....	156,000	105,000
	<u>373,991</u>	<u>334,330</u>
Dividend received from associated company.....	25,000	—
Net earnings for the year.....	<u>\$ 398,991</u>	<u>\$ 334,330</u>

SILKNIT

AND SUBSID

CONSOLIDATE

ASSETS

	December 31	
	<u>1967</u>	<u>1966</u>
<u>CURRENT ASSETS:</u>		
Accounts receivable, less allowance for doubtful accounts.....	\$1,870,619	\$1,834,029
Inventories of raw materials and supplies, work in process and finished stock, valued at the lower of cost and realizable value.....	2,947,633	3,489,691
Prepaid expenses.....	20,819	42,080
Total current assets.....	4,839,071	5,365,800
 <u>OTHER ASSETS:</u>		
Investments in shares of associated companies, at cost (Note 1).....	23,586	23,586
Cash surrender value of life insurance.....	133,671	126,914
Sundry.....	43,871	34,882
	201,128	185,382
 <u>FIXED ASSETS:</u>		
Land, buildings, plant and equipment, at cost.....	4,270,334	4,144,075
Less—Accumulated depreciation.....	2,897,494	2,712,466
	1,372,840	1,431,609
 ON BEHALF OF THE BOARD:		
M. H. EPSTEIN, <i>Director</i> .		
H. B. EPSTEIN, <i>Director</i> .		
	<u>\$6,413,039</u>	<u>\$6,982,791</u>

LIMITED

COMPANIES

BALANCE SHEET

LIABILITIES

<u>CURRENT LIABILITIES:</u>	December 31	
	<u>1967</u>	<u>1966</u>
Bank advances (secured).....	\$ 309,904	\$1,100,030
Accounts payable and accruals.....	699,122	897,811
Payable to associated company.....	138,820	10,927
Income and other taxes payable.....	117,277	31,922
Final sinking fund payment due on first mortgage bonds.....	—	64,702
	<hr/>	<hr/>
Total current liabilities.....	1,265,123	2,105,392

SHAREHOLDERS' EQUITY:

Five per cent (5%) cumulative redeemable preferred shares:		
Authorized—25,000 shares of \$40 each		
Issued—15,000 shares		
Outstanding—6,092 shares (1966—6,112 shares).....	243,680	244,480
Common shares:		
Authorized—600,000 shares without nominal or par value		
Issued and outstanding—210,000 shares.....	350,000	350,000
Earned surplus (of which \$356,320 is designated as capital surplus in compliance with Section 61 of the Canada Corporations Act).....	4,071,414	3,800,127
Contributed surplus.....	482,822	482,792
	<hr/>	<hr/>
	5,147,916	4,877,399

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\$6,413,039	\$6,982,791
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SILKNIT LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNED SURPLUS

	Year ended December 31	
	<u>1967</u>	<u>1966</u>
Balance at beginning of year.....	\$3,800,127	\$3,593,521
Net earnings for the year.....	398,991	334,330
	<u>4,199,118</u>	<u>3,927,851</u>
<u>Deduct:</u>		
Dividends—		
On preferred shares.....	12,204	12,224
On common shares.....	115,500	115,500
	<u>127,704</u>	<u>127,724</u>
Balance at end of year.....	<u>\$4,071,414</u>	<u>\$3,800,127</u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

	Year ended December 31	
	<u>1967</u>	<u>1966</u>
Balance at beginning of year.....	\$ 482,792	\$ 482,825
Gain (loss) on preferred shares purchased for cancellation during the year.....	30	(33)
Balance at end of year.....	<u>\$ 482,822</u>	<u>\$ 482,792</u>

SILKNIT LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year ended December 31	
	<u>1967</u>	<u>1966</u>
<u>SOURCE OF FUNDS:</u>		
Funds provided from operations—		
Net earnings for the year.....	\$ 398,991	\$ 334,330
Provision for depreciation.....	214,720	238,437
	<u>613,711</u>	<u>572,767</u>
<u>APPLICATION OF FUNDS:</u>		
Dividends—Common.....	115,500	115,500
Preferred.....	12,204	12,224
Cost of preferred shares purchased for cancellation.....	770	3,273
Additions to fixed assets (net).....	155,951	455,219
Sinking fund requirement on first mortgage bonds.....	—	64,702
Other (net).....	15,746	(14,489)
	<u>300,171</u>	<u>636,429</u>
Resulting in an increase (decrease) in working capital of.....	313,540	(63,662)
Working capital at beginning of year.....	3,260,408	3,324,070
Working capital at end of year.....	<u>\$3,573,948</u>	<u>\$3,260,408</u>

SILKNIT LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1967

1. INVESTMENT IN SHARES OF ASSOCIATED COMPANIES:

The Company's share of net earnings of its associated companies (50% owned) for the year ended December 31, 1967 amounted to \$128,373 (1966—\$91,225) including \$50,000 as its share of an extraordinary income item in 1967. These earnings are reflected in the attached accounts only to the extent of dividends received. The book value of the net assets attributable to the investment in shares of associated companies at December 31, 1967 amounted to \$732,273 (1966—\$628,900).

2. INCOME TAXES:

Capital cost allowances to be claimed for tax purposes by the parent company in excess of depreciation recorded in its accounts have reduced the provision for income taxes by \$48,000 (1966—\$75,000). The cumulative amount of such tax reductions applicable to the parent company is \$209,000.

In addition taxable income on a consolidated basis was further reduced as a result of the utilization of losses being carried forward by one of the subsidiary companies and by claiming as capital cost allowance amounts previously recorded as depreciation by that subsidiary but not claimed for tax purposes. Approximately \$375,000 of capital cost allowance previously recorded as depreciation by the subsidiary remains to be claimed for tax purposes in future years.

The amount available to be claimed by the subsidiary approximately offsets the extra amounts claimed by the parent as described above with the result that, assuming the subsidiary's operation continues profitably, the effect on future tax provisions on a consolidated basis will be immaterial.

SILKNIT LIMITED

OFFICERS AND DIRECTORS

M. H. EPSTEIN.....	<i>Chairman of the Board and Director</i>
H. B. EPSTEIN.....	<i>President and Director</i>
H. T. BURGESS.....	<i>Secretary and Director</i>
W. CROMPTON.....	<i>Treasurer</i>
E. J. LERANBAUM.....	<i>Director</i>
E. G. McMILLAN.....	<i>Director</i>
M. ROGERS.....	<i>Director</i>
C. W. DUMAS.....	<i>Director</i>
J. A. PINATEL.....	<i>Director</i>
MRS. ANNE EPSTEIN.....	<i>Director</i>

